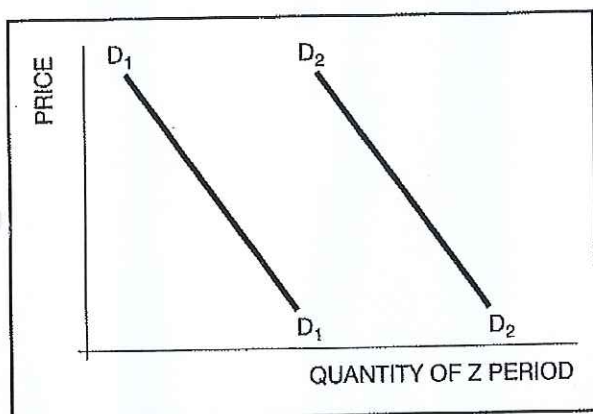


MULTIPLE CHOICE

- 1 A demand curve for a product is drawn on the assumption that all of the following remain unchanged *except*:

A The price of the product.
 B Consumer tastes.
 C The price of other products.
 D The size of the population.
 E Incomes.

- 2 The diagram relates to product Z.

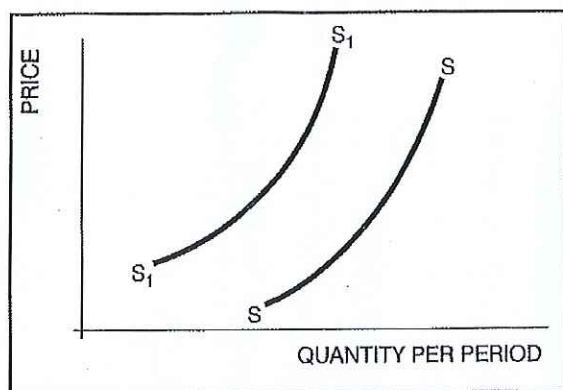


Which of the following may have caused a movement from demand curve D_1 to D_2 ?

- 1 A falls in incomes.
 2 A rise in the price of a substitute.
 3 A rise in the price of a complement.

A 1 only
 B 2 only
 C 3 only
 D 2 and 3 only
 E 1 and 2 only

- 3 The best explanation of the shift in the supply curve from SS to S_1S_1 would be:



A A rise in the price of the product.
 B The granting of a subsidy.
 C A fall in the price of raw materials.
 D Technical progress.
 E A rise in wages paid to labour.

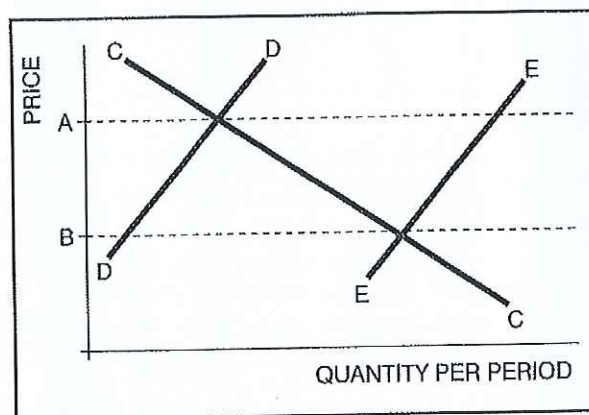
- 4 Which of the following pairs of commodities is an example of goods in complementary demand?

A Beef and lamb
 B Coffee and tea
 C Butter and margarine
 D Quilts and quilt covers
 E Salt and sugar

- 5 Other things unchanged, an increase in demand for a product will cause:

A Market price to rise and supply to contract.
 B Market price to fall and supply to extend.
 C An increase in supply as market price rises.
 D An increase in market price and an extension of supply.
 E Market price to rise with no change in quantity traded in the market.

Questions 6–8 are based on the following diagram.



Given an increase in supply which curve or point indicates:

- 6 The increase in supply?
 7 The new market price?
 8 The demand curve?

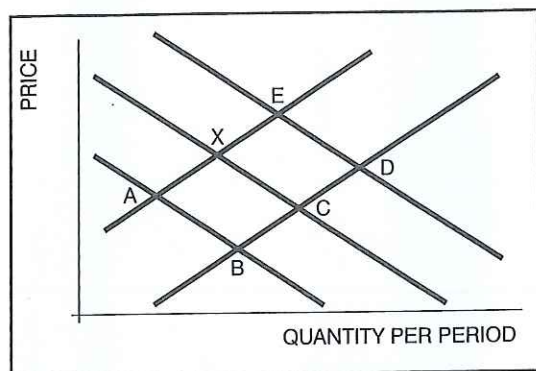
Questions 9 and 10 are based on the following terms:

- A A contraction of supply
- B A contraction of demand
- C A fall in demand
- D A fall in supply
- E An extension of supply

Which of the above best describes a situation where:

- 9. Crop disease leads to a poor harvest of corn?
- 10. An increase in air fares reduces the number of passenger flights?

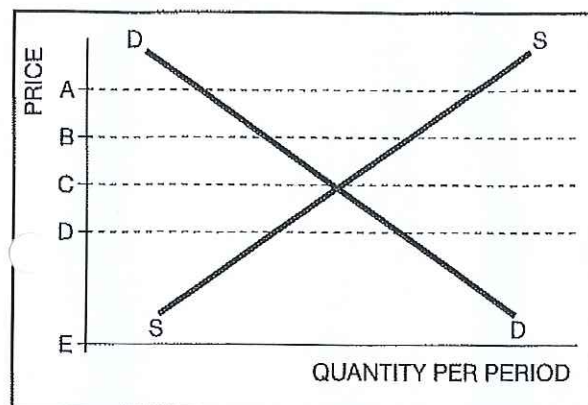
Questions 11–13 are based on the diagram below which represents changes in demand and supply in the market for chocolate bars.



If X is the initial equilibrium where supply equals demand, find the new equilibrium positions given the following changes. (Take X as the original equilibrium in each case.)

- 11. A rise in people's incomes if chocolate is a normal good.
- 12. Technical progress in the chocolate-making industry.
- 13. A fall in the price of other sweets.

Questions 14–16 are based on the following diagram.



At which price will there be:

- 14. A market equilibrium?
- 15. The greatest excess demand?
- 16. The greatest excess supply?

- 17. An increase in the price of peanut butter will cause the demand curve for jelly to shift in which of the following directions?
 - (A) To the right, because peanut butter is a product that the government says is good for you
 - (B) To the right, if jelly is purchased by people with lower incomes and peanut butter is a luxury good for them
 - (C) To the right, if peanut butter and jelly are complementary goods
 - (D) To the left, if peanut butter and jelly are complementary goods
 - (E) To the left, if peanut butter and jelly are substitute goods

- 18. All of the following might reasonably be expected to shift the demand curve for beef to a new position *except*
 - (A) a decrease in the price of beef.
 - (B) a change in people's tastes with respect to beef.
 - (C) an increase in the money incomes of beef consumers.
 - (D) a widespread advertising campaign by the producers of a product competitive with beef, such as pork.
 - (E) expectations that beef prices will fall in the future.

19. A decrease in the price of silicon chips and increased production of user-friendly software will affect the price and quantity of computers in which of the following ways?

Price	Quantity
(A) Increase	Increase
(B) Increase	Decrease
(C) Decrease	Decrease
(D) Decrease	May increase, decrease or remain the same
(E) May increase, decrease or remain the same	Increase

20. An improvement in the technology used in the production of automobiles and an increase in the need for automobile transportation will most likely cause the price and quantity of automobiles to change in which of the following ways?

Price	Quantity
(A) Increase	Increase
(B) Increase	Decrease
(C) May increase, decrease, or stay the same	Increase
(D) Decrease	May increase, decrease or remain the same
(E) Decrease	Increase

21. An increase in the price of gasoline will *most likely* cause the demand curve for tires to change in which direction?

- (A) To the left, because gasoline and tires are substitutes
 (B) To the left, because gasoline and tires are complements
 (C) To the right, because gasoline and tires are substitutes
 (D) To the right, because gasoline and tires are complements
 (E) To the right, because an increase in the price of gasoline makes consumers poorer and thus not willing to pay as much for tires

22. If the demand for a good or service decreases, the equilibrium price and quantity are most likely to change in which of the following ways?

Price	Quantity
(A) Increase	Increase
(B) Increase	Decrease
(C) Decrease	Decrease
(D) Decrease	Increase
(E) No change	No change

DATA RESPONSE 1

Below are the demand and supply schedules for a certain commodity.

Price (£)	Quantity demanded per month (000's)	Quantity supplied per month (000's)
10	10	40
9	15	35
8	20	30
7	25	25
6	30	20
5	35	14
4	40	8

- Plot the demand and supply curves on a suitable graph and label them D and S respectively. (6 marks)
- What is the market price and the quantity traded at this price? (2 marks)
- Assume that the Government imposes a tax on the commodity of £1. Plot the new supply curve on your graph and label it S_1 . (4 marks)
- What is the new market price? (2 marks)
- Imagine that the commodity in question is cigarettes. Why else may the supply of cigarettes fall? (6 marks)
- If the demand for cigarettes is price-inelastic, what effect will the tax have on total spending on cigarettes? (2 marks)